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SUBJECT: Foreign Law Firms in China: Take Your Shoes Off and Stay
Awhile... For Now

¶1. (SBU) One year after the Shanghai Lawyer's Association petitioned for greater restrictions on foreigners practicing law in China, foreign legal experts in South China say the government has not imposed any new restrictive measures on foreign law firms. Nevertheless, protectionist sentiment may rise as local law firms grow; promoting more local staff may be the best long-term safeguard. End Summary.

Law Firms: Conflicting Views

¶2. (SBU) The Shanghai Lawyer's Association circulated a memo just over one year ago which called for a crackdown on foreigners practicing law in China. The memo accused foreign firms of exceeding their permitted activities by participating directly in the Chinese law relating to investment negotiation and litigation preparation. According to Dan Harris, one of the memo's recipients and managing partner of Harris & Moure PLLC, the government has not instituted any changes in response to the memo. He said that officials are wary of cracking down on foreign law firms because they do not want foreign investors (who prefer foreign law firms) to leave.

¶3. (SBU) One foreign legal expert in south China, whose firm just received an unprecedented third license, believes that the government will enforce restrictive measures on foreign firms as more local Chinese become legally qualified. In his opinion, the foreign firms which survive will be the ones that possess the necessary regional expertise to maneuver through the local regulatory climates, particularly in areas like south China, where local interpretation often diverges from national standards. At the moment, however, several lawyers at Chinese and U.S. law firms in this area said they believe the only tangible effect of the memo has been to make foreign firms increasingly secretive about who is doing the work.

Regional Issue

¶4. (SBU) Foreign law firms in south China have not been as affected by the recent wave of protectionist sentiment as their counterparts in Beijing and Shanghai, according to observers. Maarten Roos, senior legal consultant for Wang Jing Law Firm, which has offices throughout China, attributes this to several factors. First, large multinational clients typically use Hong Kong law firms because of proximity. Second, Guangdong has numerous jurisdictions, each with its own distinct legal authority. Thus, many clients choose domestic firms because of their local expertise. Still, Roos recognizes that an expansion of foreign firms within the region is likely not far off the horizon, a threat which he believes, once made aware to Chinese firms, will spark a similar protectionist

movement in the South.

Accounting Firms: A Model for Success?

15. (SBU) Foreign accounting firms faced similar protectionist sentiment several years ago, following a scandal involving one of the large accounting firms operating in China. According to Alfred Leong, regional partner with PriceWaterhouseCoopers, the situation has vastly improved since foreign firms began to hire more domestic personnel. The lesson, according to Leong, is that foreign firms operating in China's burgeoning legal and accounting service sector will likely find permanent homes only by promoting more local talent.

16. (SBU) However, the legal sector differs from the accounting sector in several important respects. For one, foreign law firms remain extremely hesitant to promote local Chinese attorneys to partner status. Among the major foreign law firms located in Guangzhou, only one currently has a Chinese national working as a partner. Additionally, Chinese law requires all Chinese lawyers to forfeit their legal licenses when working for foreign firms. While this has not been a source of animosity yet, many expect that south China's burgeoning foreign investment will bring with it more foreign law firms, which in turn may spark renewed hostility over the issue. According to Chun Hua Li, chief representative for McCandlish Holton PC, animosity is likely to fester until firms are either permitted, or choose of their own accord, to promote more local people beyond the title of "glorified paralegals".

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